

*Illinois Tool Works Inc., et al., v. Independent Ink, Inc.*  
73 U.S.P.Q.2d 1705  
396 F.3d 1342 (Fed. Cir. 2005), *cert.*  
*granted* (125 S.Ct. 2937) (U.S. June 20, 2005) (04-1329)

High Court To Review (And Presumably Reject) Presumption Of Patent Tying Market Power

On January 25, 2004, a panel of the Federal Circuit reversed summary judgment for ITW on Independent's Sherman Act §1 claim holding "that a rebuttable presumption of market power arises from the possession of a patent over a tying product." 396 F.3d at 1344. On June 20, 2005, the Supreme Court granted ITW's petition for writ of certiorari. The question presented is:

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. §1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.

The resolution of this question will indicate whether the high court will continue the harmonization of antitrust and patent law that began in recent decades or will resurrect the view that patent rights are hostile to the antitrust goal of maximizing consumer welfare by encouraging competitive behavior.

Background

ITW, through its Trident division, manufactures and licenses printheads that employ patented technology. It also manufactures and sells unpatented ink for use with the printheads. Trident's printheads are components of ink jet printers sold to manufacturers for printing bar codes on cardboard shipping cartons, a process that consumes large quantities ink requiring precise application. Trident's '226 patent describes a printhead and ink supply apparatus consisting in part

of an ink bottle and a peristaltic ink pump<sup>1</sup> that is capable of supplying ink to the printhead from the ink bottle under consistent pressure. As the pump is hand-actuated, it is far less complex and costly than other peristaltic pumps on the market. It is also more reliable than devices using valves or other means to regulate ink flow and pressure.

Trident licenses, rather than sells, its patented printheads and ink supply apparatus to OEM's which, in turn, make printers for sale to end users. The licensing agreement grants OEM's the right to "manufacture, use and sell . . . ink jet printing devices supplied by Trident" only "when used in combination with ink and ink supply systems supplied by Trident." *Id.* at 1345. The ink is supplied to the OEM's in patented bottles licensed for one-time use. End-use customers purchase Trident ink refills from the OEM. There is no claim that the ink is covered by any of Trident's patents. The Federal Circuit viewed this as a tying agreement

We thus have an explicit tying agreement conditioning the sale of a patented product (the printheads and ink supply apparatus covered by the '226 patent and possibly other patents as well) on the sale of an unpatented one (the ink).

*Id.*

Independent, a competing manufacturer of ink and a refiller of patented Trident ink bottles, sued ITW for illegal tying under §1 of the Sherman Act among other claims. The district court granted summary judgment for ITW on the §1 tying claim because Independent failed to establish the relevant market or defendant's power within the market. In so doing, the district court elected not to follow the Supreme Court's holding in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 16 (1984) that "the sale or lease of a patented item on condition that the buyer make all his

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<sup>1</sup>A peristaltic pump is a type of positive displacement pump used for pumping fluids. The fluid is contained within a flexible tube fitted inside a pump casing. A rotor with one or more cams compresses the external surface of the tube thereby forcing the fluid to move through the tube. When the tube returns to its uncompressed state, fluid flow to the pump is induced. The pump mimics the natural process of peristalsis that occurs in the gastrointestinal tract. <[http://wikipedia.org/wiki/Peristaltic\\_pump](http://wikipedia.org/wiki/Peristaltic_pump)>.

purchases of a separate tied product from the patentee is unlawful." *Id.* at 1345. The trial court characterized this holding as dictum and described other Supreme Court precedent as "vintage." The district court relied on the concurring opinion in *Jefferson Parish*, its assessment of more recent opinions written by certain members of the *Jefferson Parish* majority in later cases and academic criticisms of the presumption of market power. Independent appealed.

The Federal Circuit reviewed the extensive history of the Supreme Court's hostility to tying arrangements including patent tying arrangements. It also discussed the high court's evolving formulations of the requisite market power needed to prove a tying product in other than patent tying cases.<sup>2</sup> In patent tying cases, however, the Federal Circuit found great consistency among the Supreme Court cases on the issue of market power. This led it to conclude that patent tying has developed as a distinct doctrine with market power standards different than those applied to non-patented tying products. Where the tying product is patented, market power is presumed and the burden of coming forward with evidence to rebut the presumption shifts to defendant from plaintiff. *Id.* at 1351.

The panel considered in detail and acknowledged the strength of ITW's arguments in support of rejecting the presumption of market power in patent tying cases. Despite the force of defendant's arguments, the panel rejected them.

The fundamental error in all of defendants' arguments is that they ignore the fact that it is the duty of a court of appeals to follow the precedents of the Supreme Court until the Court itself chooses to expressly overrule them.

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<sup>2</sup>The court has most recently defined the market power of a non-patented typing product as "the ability of a single seller to raise price and restrict output." The existence of such power ordinarily is inferred from the seller's possession of a predominant market share. *Eastman Kodak Co., v. Image Technical Services Inc.*, 504 U.S. 451, 464 (1992).

Even where a Supreme Court precedent contains many "infirmities" and rests upon "wobbly, moth-eaten foundations," it remains the "Court's prerogative alone to overrule one of its precedents."

*Id.*

The panel concluded that it was duty bound to follow the Supreme Court precedent.

[T]he Supreme Court has held that there is a presumption of market power in patent tying cases, and we are obliged to follow the Supreme Court's direction in this respect. The time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment.

*Id.*

Against this backdrop, ITW sought Supreme Court review. Its arguments for review focused on the need to reconsider earlier patent tying cases, the shifting views of current Court members on the market power presumption, the disarray among the Circuits on this recurring issue, and finally, the practical implications for future IP tying cases if the Federal Circuit decision is not reversed.

The ABA, AIPLA and the IPO sought and received leave to file *amicus curiae* briefs in support of ITW's petition. Each emphasized the need for the Court to resolve conflicts among lower courts and each urged the court to reject the presumption of market power. In particular, they emphasized the lack of evidence or legal policy supporting a presumption that ownership of a patent confers market power.<sup>3</sup> On the contrary, they argued, the available evidence and academic commentary suggests to the contrary.

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<sup>3</sup>According to the then Director of the PTO, "Patent examination does not include an analysis of the potential commercial impact of a patent. Patent examination does not determine the relevant market in which the invention may be marketed or sold. No patent examiner projects the economies of scale to be achieved through the invention." Prepared Remarks of James E. Rogan, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, at the Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-based Economy, February 6, 2002 <<http://www.ftc.gov/opp/intellect/rogan.htm>>.

Each *amicus* brief stressed that the market power presumption is out of step with the trend in Supreme Court jurisprudence to restrict *per se* treatment of economic conduct only to a narrow range of conduct that virtually always harms competition. All other economic conduct, the Court has held, should be examined using the Rule of Reason balancing test to determine whether the conduct restrains or promotes competition. Permitting the presumption to stand, *amicus* argued, would subject intellectual property owners to special burdens, not the least of which would be the increase of IP-related tying claims, given the ease with which such claims could be proven if market power is presumed. Finally, *amicus* noted that neither of the two principal antitrust enforcement agencies, the Department of Justice and the Federal Trade Commission, distinguishes patent tying products from non-patented tying products nor applies a market power presumption when evaluating a tying case involving a patented product.

The Supreme Court did not need to grant *certiorari* in this case to preserve the status quo as described by the Federal Circuit. It seems likely, therefore, that Court is poised to reject the market power presumption in patent tying cases and put the burden of coming forward with evidence on plaintiff as in all other tying cases.

Query? A basic assumption of the vintage patent tying cases is that a patent confers market power because it involves a "unique" product, process or method. Is this assumption warranted in your experience? What about "pioneer" patents?